

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Village of Lake Odessa	County Ionia
Audit Date 2/28/06	Opinion Date 7/20/06	Date Accountant Report Submitted to State: 8/30/06	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ Yes ☐ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ Yes ☐ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

Walker, Fluke & Sheldon, PLC

Street Address

525 W Apple St

City

Hastings

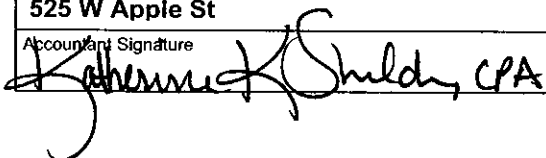
State

MI

ZIP

49058

Accountant Signature



Date

8/30/06



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July 20, 2006

To the Village Council
Village of Lake Odessa
Ionia County, MI

We have recently completed an audit of the financial statements of the Village of Lake Odessa, Ionia County, Michigan for the year ended February 28, 2006. During the course of the audit the following items came to our attention, which require further comment.

Budgets Should Be Reviewed On A Periodic Basis

The general appropriations act passed before the beginning of each fiscal year is the legal authority for the Village to spend public moneys. The general appropriations act specifies amounts that may be spent by budget category. The Village does not have legal authority to spend amounts in excess of specific appropriations.

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit of government may not incur expenditures in excess of amounts appropriated. When it appears that more money will be spent than the amount originally appropriated, it is necessary to amend the budget. This can be done at any meeting prior to the fiscal year end and does not require a new public hearing. During the year ended February 28, 2006, the Village's actual expenditures exceeded their appropriations in several categories.

It is recommended that the Village closely monitor the expenditures in relation to amounts appropriated and amend the budget when necessary. In addition, consideration should be taken at year-end for typical audit adjustments and amend the budget accordingly. The approved budget and all amended budgets should become a permanent part of the board minutes.

A Separate Street Bank Account Is Required

During the course of the audit, it was noted that Village does not have a separate streets bank account.

The Department of Treasury requires that local units of government that receive ACT 51 monies maintain a separate streets bank account. This account will control the expenditures of monies that are earmarked by law and the State Constitution for street and highway purposes. The local and major street funds may be pooled as one shared account.

It is recommended that the Village Council approve the opening of a street bank account and the restricted fund balance be transferred to this account. All future deposits and expenditures should be deposited and paid from this account.

The Village Has Not Adopted A Credit Card Policy

During the course of the audit, it was noted that the Village has a credit card, but the Village has failed to adopt a credit card policy.

P.A. 1998 states that a local unit shall not be a party to a credit card agreement unless the governing body of the local unit has adopted by resolution a written policy that provides several important factors regarding the use and control of the credit card.

It is recommended that the Village prepare and adopt a written credit card policy in accordance with the guidelines set forth in P.A. 1998. This has been discussed with the financial officer and a sample policy has been presented for approval.

Compliance with Bond Covenants

During the course of the audit, the water bond covenants were examined. It was noted that the Village had not opened the required accounts nor had the transfers required under the bond covenants been made to the proper accounts.

According to the water system bond covenants several bank accounts should have been opened at the time the bonds were obtained for the deposit of water utility collections. These covenants require the Village to maintain separate accounts and make quarterly transfers to help ensure that the payment of the bond interest and principal each year can be met.

Although the Village will be repaying these bonds in the near future the new bonds will have similar covenants that need to be complied with. It is our recommendation that the Village reviews the covenants and opens the required accounts and makes the required transfers to each account according to these new bond covenants.

Recording Fixed Assets and Construction In Progress

During the course of the audit, it was necessary to scan various expense accounts looking for expenditures relating to the current water system improvements that needed reclassification. This additional work is outside the normal procedures required by an audit and is costly to the Village.

Enterprise Fund fixed assets are capitalized in the each respective fund because the fixed assets are used in the production of the goods or services provided and sold. The proper accounting and fair presentation of fixed assets used in an enterprise fund, such as water and sewer fund, is very important since the valuation is used to determine the rate structures under which the consumers are charged for the services rendered.

Fixed assets should be recorded at cost. The cost includes not only its purchase price or construction cost, but also other related charges necessary to place the asset in its intended location or condition. These charges would include costs such as freight and transportation charges, site preparation expenditures, engineering and supervisory services, professional fees, interest and insurance during construction, and legal claims directly attributable to asset acquisitions.

Depreciation of these fixed assets must be recorded when the assets are placed into service. Depreciation accounting is an important element of the income-determination process.

It is recommended that the Village record all costs associated with the current water system improvement project to the Construction In Progress general ledger account. Expenditures already incurred in the current fiscal year should be identified and journal entries made to reclassify such items. Upon completion of the project the Construction In Progress account should be closed by a journal entry reclassifying the amount to the proper fixed asset accounts, with depreciation recorded on an annual basis.

Disbursements

During the course of the audit, a valid receipt could not substantiate several credit card disbursements.

Disbursements made by the Village should be supported by proper documentation. Invoices or contracts should support expenditures for goods or services. A signed reimbursement form that specifies the payee, what the expense was incurred for, where the expense occurred, when the expense was incurred and why the expense was incurred should substantiate reimbursements to employees or officials. Applicable invoices or receipts should be attached.

We recommend that the Village obtain proper documentation for all disbursements made. The documentation should be filed in an organized manner that is easily assessable. In addition, the Financial Officer should examine all credit card invoices prior to approval for payment.

Posting of Equipment Rental

During the course of the audit it was noted that equipment rental revenue in the general fund was being posted to reimbursements and the corresponding expenses in the street funds are reported as administration expenses.

All equipment of the Village is purchased through the general fund. As the various funds use the equipment, the Village needs to allocate this usage by recording an expense in each fund and corresponding revenue in the general fund. The revenue in the general fund should be posted to the account equipment rental revenue. According to Public Act 51, equipment rental is not considered administrative expense and should be allocated to each fund's appropriate activity (construction, maintenance, traffic services, etc.) according to the equipment usage.

It is our recommendation that the Village start posting the amount of equipment usage for each fund according to the guidelines set forth in Public Act 51. All equipment rental accounts should reflect the usage through the end of the fiscal year. If the funds do not have the money, then a payable to the general fund should be recorded in each fund and a receivable in the general fund. As the funds acquire the money and the reimbursement is made to the general fund, the payable should be reduced along with the receivable in the general fund.

We would like to take this opportunity to thank the Village for the cooperation and courtesy extended to us during the audit. If you have any questions or need assistance, do not hesitate to contact us.

Walker, Fiske & Shuloh, P.C.

VILLAGE OF LAKE ODESSA
FINANCIAL STATEMENTS
For the year ended February 28, 2006

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INDEPENDENT AUDITORS' REPORT

To the Village Council
Village of Lake Odessa
Ionia County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Lake Odessa, Michigan, as of and for the year ended February 28, 2006, which collectively comprise the Village's financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Lake Odessa, Michigan's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Village of Lake Odessa, Michigan, as of February 28, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 20, 2006, on our consideration of the Village of Lake Odessa, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information listed in the table of contents are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Lake Odessa's basic financial statements. The additional supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Village of Lake Odessa, Michigan. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Hastings, Michigan
July 20, 2006

Walker, Fluke & Sheldon, PLC

Village of Lake Odessa Management Discussion and Analysis

As the Village Council of the Village of Lake Odessa, we offer readers of the Village's financial statements this narrative overview and analysis of the financial activities of Village of Lake Odessa for the fiscal year ended February 28, 2006. The analysis focuses on significant financial position, budget changes and variances from the budget, and specific issues related to funds and the economic factors affecting the Village. We encourage readers to consider this information in conjunction with the letter or transmittal, which begins on page 1, and the financial statements, which begin on page 7.

Financial Highlights

- The assets of Village of Lake Odessa exceeded its liabilities at the close of the most recent fiscal year by \$3,096,536 (net assets) compared to \$2,355,845 last year. Of this amount, \$859,039 (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$740,691 compared to \$143,408 last year.
- As of the close of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$937,328, an increase of \$94,806 compared to an ending fund balance of \$842,522, an increase of \$108,782 from the prior year.
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$505,595 or 74.60% of total general fund expenditures. Last year the unreserved fund balance for the general fund was \$432,757 or 55.97% of total general fund expenditures. The Village is in a strong financial position to meet unexpected emergencies, uncertainties at the State level or the general slowdown of the economy.

Overview of the Financial Statements

The Village of Lake Odessa's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Village's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Village's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the Village's financial position is improving or deteriorating.

The statement of activities presents information showing how the Village's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., state shared revenue).

Both of the government-wide financial statements distinguish functions of the Village that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Village include general government, public safety, highways and streets, recreation and cultural and health and welfare.

The government-wide financial statements can be found on pages 7-8 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Village of Lake Odessa, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Village can be divided into three categories: government funds, proprietary funds and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end

of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Village of Lake Odessa maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Major Streets, Local Streets and Road Fund, which are considered to be major funds.

The basic governmental fund financial statements can be found on pages 9-11 of this report.

Proprietary funds. The Village maintains one proprietary fund. Enterprise funds are used to report the same functions as business-type activities in the government-wide financial statements. The Village uses an enterprise fund to account for the Water Fund.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water Fund, of which is considered to be a major fund of the Village. The proprietary fund financial statements can be found on pages 12-14 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are available to support the Village's own programs. The fiduciary fund financial statement can be found on page 15 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

The notes to the financial statements can be found on pages 16-27 of this report.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information. The Village adopts an annual budget for its general fund, major street fund and local street fund. Within the required supplementary information, a budget comparison statement has been provided for these funds to demonstrate compliance with the budget.

Required supplementary information can be found on pages 28-31 of this report.

Individual fund statements and schedules are presented immediately following the required supplementary information on budgets on pages 32-34.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Village of Lake Odessa, assets exceeded liabilities by \$3,096,536 at the close of the most recent fiscal year.

\$859,039 of the Village's net assets (27.74 percent) reflects its unrestricted net assets, which may be used to meet the government's ongoing obligations to citizens and creditors. An additional portion of the Village's net assets (7.91 percent) reflects restricted net assets (\$244,926), which are resources that are subject to external restrictions on how they may be used. The remaining portion of the Village's net assets (64.35 percent) reflects its investment in capital assets (\$1,992,571) (e.g. land, buildings, equipment and furniture and fixtures). The Village uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Village of Lake Odessa's Condensed Financial Data

	Governmental		Business-Type	
	2006	2005	2006	2005
Current and Other Assets	\$ 952,585	\$ 951,091	\$ 514,954	\$ 260,009
Capital Assets	<u>434,472</u>	<u>228,562</u>	<u>1,789,123</u>	<u>1,343,310</u>
Total Assets	<u>1,387,057</u>	<u>1,179,653</u>	<u>2,304,077</u>	<u>1,603,319</u>
Short-Term Liabilities	38,294	120,499	415,126	75,397
Long-Term Liabilities	<u>35,589</u>	<u>48,115</u>	<u>105,589</u>	<u>183,116</u>
Total Liabilities	<u>73,883</u>	<u>168,614</u>	<u>520,715</u>	<u>258,513</u>
Net Assets				
Invested in Capital Assets,				
Net of Related Debt	386,460	168,517	1,606,111	1,088,264
Restricted	244,926	200,947	-	-
Unrestricted	<u>681,788</u>	<u>641,575</u>	<u>177,251</u>	<u>256,542</u>
Total Net Assets	<u>\$ 1,313,174</u>	<u>\$ 1,011,039</u>	<u>\$ 1,783,362</u>	<u>\$ 1,344,806</u>
Program Revenues				
Charges for Services	\$ -	\$ 19,236	\$ 389,947	\$ 380,890
General Revenues				
Property Taxes	639,978	619,191	-	-
Licenses and Permits	9,831	-	-	-
State Grants	403,896	274,899	-	-
Fines and Forfeitures	2,156			
Investment Income	16,584	10,641	-	-
Other	45,673	198,435	-	-
Business-Type Revenues				
Investment Income	-	-	8,295	8,744
Contributed Capital	-	-	<u>471,002</u>	<u>-</u>
Total Revenues	<u>1,118,118</u>	<u>1,122,402</u>	<u>869,244</u>	<u>389,634</u>
Program Expenses				
Governmental Activities				
Governing Body	28,615	-	-	-
General Government	164,994	241,156	-	-
Public Safety	328,766	310,975	-	-
Public Works	237,079	304,909	-	-
Recreational and Cultural	54,312	52,028	-	-
Interest and fiscal charges	2,217	2,723	-	-
Other	-	100,000	-	-
Business-Type Activities				
Water	-	-	420,513	356,837
Interest and fiscal charges	-	-	<u>10,175</u>	<u>-</u>
Total Expenses	<u>815,983</u>	<u>1,011,791</u>	<u>430,688</u>	<u>356,837</u>
Change in Net Assets	<u>\$ 302,135</u>	<u>\$ 110,611</u>	<u>\$ 438,556</u>	<u>\$ 32,797</u>

At the end of the current fiscal year, the Village is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental activities.

Governmental activities. Governmental activities increased the Village's net assets by \$302,135, mainly due to the fact that expenditures were down from the prior year and controlled responsible spending by the Village Council.

Business-Type activities. Business-type activities increased the Village's net assets by \$438,566 mainly due to the sunny fresh project.

Financial Analysis of the Village's Funds

As noted earlier, the Village used fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Village's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Village's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a Village's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$937,328, an increase of \$94,806. Last year, the Village's governmental funds combined ending fund balance was \$842,522, which was an increase of \$108,782.

The general fund is the chief operating fund of the Village. At the end of the current fiscal year, unreserved fund balance of the general fund was \$505,595 and the total fund balance was \$547,136. Unreserved fund balance represents 74.60% of the total general fund expenditures.

The fund balance of the Village's general fund increased by \$73,874 during the current fiscal year, mainly due to decreases in spending.

Proprietary funds. The Village's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

As of the end of the current fiscal year, the Village's water fund reported unrestricted net assets of \$177,251. The Water Fund had an increase in net assets of \$438,556.

General Fund Budgetary Highlights

There were no changes between the original and amended budget for both revenues and expenditures.

During the year, however, revenues exceeded budgetary estimates, and expenditures were less than budgetary estimates.

Capital Assets

The Village's investment in capital assets for its governmental activities as of February 28, 2006, amounts to \$434,472 (net of accumulated depreciation). This investment in capital assets includes: land, buildings, improvements, equipment and furniture and fixtures.

Major capital asset events during the current fiscal year included a digital video system for the police department, carpeting and natural stone flooring for Page Memorial Building, and paving of the park trail. Details of the Village's capital assets are continued in the notes to the financial statements on page 23.

Long-Term Debt

At the end of the current fiscal year, the Village had total bonded debt outstanding of \$135,000 and general obligation debt of \$106,638. The Village's debt represents bonds secured by specified revenue sources, equipment and compensated absences, respectively.

The Village's Outstanding Debt **General Obligation and Revenue Bonds**

	<u>Governmental-Type</u> <u>Activities</u>		<u>Business-Type</u> <u>Activities</u>		<u>Total</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Primary Government:						
Revenue Bonds	\$ -	\$ -	\$ 135,000	\$ 195,000	\$ 135,000	\$ 195,000
Compensated Absences	10,614	-	-	-	10,614	-
Equipment Note	<u>48,012</u>	<u>60,042</u>	<u>48,012</u>	<u>60,042</u>	<u>96,024</u>	<u>120,084</u>
Total	<u>\$ 58,626</u>	<u>\$ 60,042</u>	<u>\$ 183,012</u>	<u>\$ 255,042</u>	<u>\$ 241,638</u>	<u>\$ 315,084</u>

The Village's debt decreased by \$73,446 (23.31%) during the current fiscal year. The net reduction was mainly attributable to making debt service payments as they came due.

Additional information on the Village's long-term debt can be found on pages 25-26 of the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Budget assumptions: The unemployment rate is still high in the State of Michigan and the State's shortfall in the budget means further reductions in state-shared revenues. State shared revenues are expected to decrease in the 2006-2007 fiscal year. The Village budgeted for a decrease in state-shared revenue. The Village's millage rate will remain the same. The taxable value will increase, thus bringing in more tax revenue. The Village will be completing the water and street projects in the next year. The Village is trying to receive a grant for 6th Avenue; besides this the Village does not have any other plans at this time due to budget constraints. These factors were considered in preparing the Village's budget for the 2006-2007 fiscal year.

Requests for Information

This financial report is designed to provide a general overview of Village of Lake Odessa's finances for all those with an interest in the village's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the (Village Manager/Finance Director), Village of Lake Odessa, 839 Fourth Ave, Lake Odessa, MI 48849. 616-374-7110.

VILLAGE OF LAKE ODESSA
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
February 28, 2006

	Primary Government		
	Governmental	Business-Type	
ASSETS	Activities	Activities	Total
Cash and Cash Equivalents	\$ 325,395	\$ (41,162)	\$ 284,233
Investments	204,008	210,318	414,326
Receivables (Net)			
Taxes - Delinquent	18,299	-	18,299
Accounts	-	50,979	50,979
Other	1,892	339,108	341,000
Due From State	102,007	-	102,007
Due From Other Funds	11,304	-	11,304
Internal Balances	44,289	(44,289)	-
Restricted Assets	245,391	-	245,391
Capital Assets (Net of Accumulated Depreciation)	<u>434,472</u>	<u>1,789,123</u>	<u>2,223,595</u>
Total Assets	<u>1,387,057</u>	<u>2,304,077</u>	<u>3,691,134</u>
LIABILITIES			
Accounts Payable	2,685	335,656	338,341
Accrued Liabilities	-	2,047	2,047
Due to Other Funds	11,304	-	11,304
Other	1,268	-	1,268
Noncurrent Liabilities			
Due Within One Year	23,037	77,423	100,460
Due In More Than One Year	<u>35,589</u>	<u>105,589</u>	<u>141,178</u>
Total Liabilities	<u>73,883</u>	<u>520,715</u>	<u>594,598</u>
NET ASSETS			
Net Assets			
Invested in Capital Assets, Net of Related Debt	386,460	1,606,111	1,992,571
Restricted for Roads	244,926	-	244,926
Unrestricted	<u>681,788</u>	<u>177,251</u>	<u>859,039</u>
Total Net Assets	<u>\$ 1,313,174</u>	<u>\$ 1,783,362</u>	<u>\$ 3,096,536</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
February 28, 2006

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue and Changes in Net Assets		Total
		Charges for Services	Governmental Activities	Business-Type Activities	
Primary Government					
Governmental Activities					
Governing Body	\$ 28,615	\$ -	\$ (28,615)	\$ -	\$ (28,615)
General Government	164,994	-	(164,994)	-	(164,994)
Public Safety	328,766	-	(328,766)	-	(328,766)
Public Works	237,079	-	(237,079)	-	(237,079)
Recreational and Cultural	54,312	-	(54,312)	-	(54,312)
Interest and Fiscal Charges	2,217	-	(2,217)	-	(2,217)
Total Governmental Activities	<u>815,983</u>	<u>-</u>	<u>(815,983)</u>	<u>-</u>	<u>(815,983)</u>
Business-type Activities					
Water	420,513	389,947	-	(30,566)	(30,566)
Interest and Fiscal Charges	10,175	-	-	(10,175)	(10,175)
Total Business-type Activities	<u>430,688</u>	<u>389,947</u>	<u>-</u>	<u>(40,741)</u>	<u>(40,741)</u>
Total Primary Government	<u>\$ 1,246,671</u>	<u>\$ 389,947</u>	<u>(815,983)</u>	<u>(40,741)</u>	<u>(856,724)</u>
General Revenues					
Taxes and Penalties			639,978	-	639,978
Licenses and Permits			9,831	-	9,831
State Grants			403,896	-	403,896
Investment Income			16,584	8,295	24,879
Fines and Forfeitures			2,156	-	2,156
Other			<u>45,673</u>	<u>-</u>	<u>45,673</u>
Total General Revenue			1,118,118	8,295	1,126,413
Capital Contributions			<u>-</u>	<u>471,002</u>	<u>471,002</u>
Change in Net Assets			302,135	438,556	740,691
Net Assets-Beginning			<u>1,011,039</u>	<u>1,344,806</u>	<u>2,355,845</u>
Net Assets-Ending			<u>\$ 1,313,174</u>	<u>\$ 1,783,362</u>	<u>\$ 3,096,536</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
GOVERNMENT FUND BALANCE SHEET
February 28, 2006

					Total Governmental Funds
ASSETS	General	Major Streets	Local Streets	Road Fund	
Cash and Cash Equivalents	\$ 290,976	\$ 18,765	\$ 15,654	\$ 66,468	\$ 391,863
Investments	120,681	83,327	-	170,722	374,730
Receivables					
Taxes	18,299	-	-	8,201	26,500
Other	1,892	-	-	-	1,892
Due From State	73,604	21,238	7,165	-	102,007
Due From Other Funds	<u>50,615</u>	<u>-</u>	<u>4,978</u>	<u>-</u>	<u>55,593</u>
 Total Assets	 <u>\$ 556,067</u>	 <u>\$ 123,330</u>	 <u>\$ 27,797</u>	 <u>\$ 245,391</u>	 <u>952,585</u>
 LIABILITIES AND FUND BALANCE					
Liabilities					
Accounts Payable	\$ 2,685	\$ -	\$ -	\$ -	\$ 2,685
Accrued Liabilities	1,268	-	-	-	1,268
Due To Other Funds	<u>4,978</u>	<u>5,861</u>	<u>-</u>	<u>465</u>	<u>11,304</u>
 Total Liabilities	 <u>8,931</u>	 <u>5,861</u>	 <u>-</u>	 <u>465</u>	 <u>15,257</u>
 Fund Balances					
Reserved	-	-	-	-	-
Designated for Capital Outlay	41,541	-	-	-	41,541
Unreserved-Undesignated	<u>505,595</u>	<u>117,469</u>	<u>27,797</u>	<u>244,926</u>	<u>895,787</u>
 Total Fund Balances	 <u>547,136</u>	 <u>117,469</u>	 <u>27,797</u>	 <u>244,926</u>	 <u>937,328</u>
 Total Liabilities and Fund Balances	 <u>\$ 556,067</u>	 <u>\$ 123,330</u>	 <u>\$ 27,797</u>	 <u>\$ 245,391</u>	

**Reconciliation of the Governmental Fund's Balance Sheet to the
Statement of Net Assets:**

Capital assets used in governmental activities are not financial resources and therefore
are not reported in the governmental funds

Governmental capital assets	\$1,188,020	
Less: Accumulated Depreciation	<u>753,548</u>	434,472

Compensated absences are not due and payable in the current period and therefore are not reported in the funds	(10,614)
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Notes payable are not due and payable in the current period and therefore are not reported in the funds	<u>(48,012)</u>
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Net Assets of Governmental Activities	<u>\$ 1,313,174</u>
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The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
GOVERNMENT FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
For the Year Ended February 28, 2006

	<u>General</u>	<u>Major Streets</u>	<u>Local Streets</u>	<u>Road Fund</u>	<u>Total Governmental Funds</u>
Revenues					
Taxes and Penalties	\$ 443,084	\$ -	\$ -	\$ 196,894	\$ 639,978
Licenses and Permits	9,831	-	-	-	9,831
State Grants	246,522	117,661	39,713	-	403,896
Fines and Forfeitures	2,156	-	-	-	2,156
Interest and Rentals	6,964	2,881	475	6,264	16,584
Other Revenue	<u>42,929</u>	<u>-</u>	<u>104</u>	<u>2,640</u>	<u>45,673</u>
Total Revenues	<u>751,486</u>	<u>120,542</u>	<u>40,292</u>	<u>205,798</u>	<u>1,118,118</u>
Expenditures					
Current					
Governing Body	28,615	-	-	-	28,615
General Government	160,170	-	-	-	160,170
Public Safety	315,695	-	-	-	315,695
Public Works	56,494	92,232	91,559	161,819	402,104
Recreation and Cultural	52,780	-	-	-	52,780
Debt Service					
Principal	12,030	-	-	-	12,030
Interest	2,217	-	-	-	2,217
Capital Outlay	<u>49,701</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>49,701</u>
Total Expenditures	<u>677,702</u>	<u>92,232</u>	<u>91,559</u>	<u>161,819</u>	<u>1,023,312</u>
Excess of Revenues Over (Under)					
Expenditures	<u>73,784</u>	<u>28,310</u>	<u>(51,267)</u>	<u>43,979</u>	<u>94,806</u>
Other Financing Sources (Uses)					
Operating Transfers In	-	-	27,098	-	27,098
Operating Transfers (Out)	<u>-</u>	<u>(27,098)</u>	<u>-</u>	<u>-</u>	<u>(27,098)</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(27,098)</u>	<u>27,098</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over (Under) Expenditures and Other Uses	<u>73,784</u>	<u>1,212</u>	<u>(24,169)</u>	<u>43,979</u>	<u>94,806</u>
Fund Balance-March 1, 2005	<u>473,352</u>	<u>116,257</u>	<u>51,966</u>	<u>200,947</u>	<u>842,522</u>
Fund Balance-February 28, 2006	<u>\$ 547,136</u>	<u>\$ 117,469</u>	<u>\$ 27,797</u>	<u>\$ 244,926</u>	<u>\$ 937,328</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCE OF GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
For the Year Ended February 28, 2006

Net Change in Fund Balances - Total Governmental Funds		\$ 94,806
Compensated absences reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds		(10,611)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces debt)		12,030
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is depreciated over their estimated useful lives		
Expenditures for capital assets	242,456	
Less: Current year depreciation	36,546	
Less: Proceeds from Disposal of Capital Assets	-	
Less: Loss from Disposal of Capital Assets	<u>-</u>	<u>205,910</u>
Change in Net Assets of Governmental Funds Activities		<u><u>\$ 302,135</u></u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF NET ASSETS
February 28, 2006

	Enterprise Fund Water System	Total
ASSETS		
Cash and Cash Equivalents	\$ (41,162)	\$ (41,162)
Investments	210,318	210,318
Receivables (Net)		
Accounts	50,979	50,979
Other	339,108	339,108
Capital Assets (Net of Accumulated Depreciation)	<u>1,789,123</u>	<u>1,789,123</u>
Total Assets	<u>\$ 2,348,366</u>	<u>\$ 2,348,366</u>
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts Payable	\$ 335,656	\$ 335,656
Accrued Liabilities	2,047	2,047
Due to Other Funds	44,289	44,289
Notes Payable	48,012	48,012
Bonds Payable	<u>135,000</u>	<u>135,000</u>
Total Liabilities	<u>565,004</u>	<u>565,004</u>
Net Assets		
Net Assets		
Investment in Capital Assets, Net of Related Debt	1,606,111	1,606,111
Restricted	-	-
Unrestricted	<u>177,251</u>	<u>177,251</u>
Total Net Assets	<u>1,783,362</u>	<u>1,783,362</u>
Total Liabilities and Net Assets	<u>\$ 2,348,366</u>	<u>\$ 2,348,366</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
For the Year Ended February 28, 2006

	<u>Enterprise Fund Water System</u>	<u>Total</u>
Operating Revenues		
Charges for Services	\$ 380,465	\$ 380,465
Other Operating Revenue	<u>9,482</u>	<u>9,482</u>
Total Operating Revenues	<u>389,947</u>	<u>389,947</u>
Operating Expenses		
Administration	42,078	42,078
Salaries and Fringe Benefits	232,607	232,607
Supplies	20,813	20,813
Contractual Services	3,573	3,573
Repairs and Maintenance	19,530	19,530
Gasoline	7,764	7,764
Depreciation	48,063	48,063
Dues and Memberships	1,109	1,109
Communication	5,001	5,001
Utilities	32,398	32,398
Education and Training	570	570
Insurance and Bonds	5,670	5,670
Water Testing	<u>1,337</u>	<u>1,337</u>
Total Operating Expenses	<u>420,513</u>	<u>420,513</u>
Operating Income	<u>(30,566)</u>	<u>(30,566)</u>
Nonoperating Revenues (Expenses)		
Interest Earned on Investments	8,295	8,295
Interest Expense	<u>(10,175)</u>	<u>(10,175)</u>
Total Nonoperating Revenues (Expenses)	<u>(1,880)</u>	<u>(1,880)</u>
Income (Loss) Before Contributions and Transfers (Out)		
Capital Contributions	(32,446)	(32,446)
Capital Contributions	<u>471,002</u>	<u>471,002</u>
Change in Net Assets	438,556	438,556
Net Assets-March 1, 2005	<u>1,344,806</u>	<u>1,344,806</u>
Net Assets-February 28, 2006	<u>\$ 1,783,362</u>	<u>\$ 1,783,362</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
PROPRIETARY FUNDS STATEMENT OF CASH FLOWS
For the Year Ended February 28, 2006

	<u>Enterprise Fund Water System</u>	<u>Total</u>
Cash Flows From Operating Activities:		
Cash Charges for Services	\$ 381,250	\$ 381,250
Other Operating Revenue	9,482	9,482
Administrative Costs	(42,078)	(42,078)
Cash Payments to Employees for Services	(233,537)	(233,537)
Cash Payments to Suppliers for Goods and Services	<u>(93,985)</u>	<u>(93,985)</u>
Net Cash Provided by Operating Activities	<u>21,132</u>	<u>21,132</u>
Cash Flows From Capital and Related Financing Activities:		
Payment of Principal	(72,030)	(72,030)
Payment of Interest	<u>(10,175)</u>	<u>(10,175)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(82,205)</u>	<u>(82,205)</u>
Cash Flows From Investing Activities:		
Interest Earned on Cash Equivalents and Investments	8,295	8,295
Purchase of Fixed Assets	(6,903)	(6,903)
Contributed Capital	471,002	471,002
Construction in Progress	<u>(491,930)</u>	<u>(491,930)</u>
Net Cash Provided (Used) by Investing Activities	<u>(19,536)</u>	<u>(19,536)</u>
Net Increase in Cash and Cash Equivalents	(80,609)	(80,609)
Cash and Cash Equivalents at Beginning of the Year (Including \$310,112 in investments)	<u>249,765</u>	<u>249,765</u>
Cash and Cash Equivalents at End of the Year (Including \$210,318 in investments)	<u>\$ 169,156</u>	<u>\$ 169,156</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ (30,566)	\$ (30,566)
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation	48,063	48,063
Decrease (Increase) in Receivables	785	785
Decrease (Increase) in Due From Other Funds	4,150	4,150
Increase (Decrease) in Accounts Payable	(490)	(490)
Increase (Decrease) in Accrued Liabilities	(929)	(929)
Increase (Decrease) Due To Other Funds	<u>119</u>	<u>119</u>
Net Cash Provided by Operating Activities	<u>\$ 21,132</u>	<u>\$ 21,132</u>

The Notes to Financial Statements are an integral part of this statement.

VILLAGE OF LAKE ODESSA
FIDUCIARY FUNDS STATEMENT OF NET ASSETS
February 28, 2006

<u>ASSETS</u>	<u>Trust and Agency</u>
Current Assets	
Cash and Cash Equivalents	\$ 568
Total Assets	<u>\$ 568</u>
 <u>LIABILITIES</u>	
Current Liabilities	
Due to Other Units of Government	\$ 568
Total Liabilities	<u>\$ 568</u>

The Notes to Financial Statements are an integral part of this statement.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Village of Lake Odessa conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Lake Odessa:

In June 1999, the GASB issued Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments. Certain significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Village's activities

REPORTING ENTITY

The Village operates under an elected council of seven members and provides services to its residents in many areas including police protection, maintenance of Village Streets and other property, water and general Village administration. Education services are provided to citizens through several local school districts, which are separate governmental entities. Fire and ambulance services are provided by outside independently owned entities. The Village is assessed for its respective share of the expenditures.

JOINT VENTURES

Fire Department

The Village, together with the Odessa Township, has established a joint fire department under the provisions of Public Act 33 of 1951 and Public Act 7 of 1967. The department is known as the Lake Odessa Fire Department. The Lake Odessa Fire Department operates under an appointed board of five members. Lake Odessa Fire Department receives 55% of its operating budget from Odessa Township and the remaining 45% from the Village of Lake Odessa. All pre-existing property used by the Fire Department that is titled in the name of Odessa Township or Village of Lake Odessa will remain the property of such entity.

Odessa Township's share of the cost of fire protection for the year ended February 28, 2006 totaled \$30,073.

The following information summarizes the activity of the joint venture through February 28, 2006, the most recent audited financial statements available.

Total Assets	\$	93,806	Total Revenues	\$	67,586
Total Liabilities	\$	-	Total Expenditures	\$	87,243
Total Net Assets	\$	93,806	Increase (Decrease) in Net Assets	\$	(19,657)
Total Joint Venture Outstanding Debt	\$	-			

Complete financial statements for Lake Odessa Fire Department can be obtained from:

Lisa Williams
3862 Laurel Rd
Lake Odessa, MI 48849

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers who purchase, use or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual; therefore, they have been recognized as revenue in the current fiscal period. All other revenues are considered to be measurable only when cash is received by the Village.

Taxes Receivable - The Village property tax is levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st.

It is the Village's policy to recognize revenue from the current tax levy in the year when the proceeds of this levy are budgeted and made "available" for the financing of operations. "Available" means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION
(Continued)

Taxes Receivable (Continued) - The 2005 State taxable valuation of the Village totaled \$39,992,054 on which ad valorem taxes levied consisted of 10.9027 mills for Village operating purposes and 4.8862 mills for Village street operations, raising \$436,016 for operating and \$195,404 for street operations. The amounts recognized in the General Fund financial statements as current property tax revenue represent 2005 taxes levied.

The Village reports the following major governmental funds:

- The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.
- The Major Street Fund accounts for the maintenance of all major streets and trunk lines. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Local Street Fund accounts for the maintenance of all local streets. Financing is provided by special revenues from provisions of Act 51 of 1951 as amended.
- The Road Fund accounts for the maintenance of the Township's roads. Revenues are primarily derived from property taxes.

The Village reports the following major proprietary funds:

- The Water Fund accounts for the operation and maintenance of the water supply system, capital additions, and retirement of revenue bonds. Financing is provided by user charges and contributions by other funds and customers.

Additionally, the government reports the following fund types:

- The Trust and Agency Fund accounts for the assets held by the Township in a trustee capacity or as an agent for individuals, private organizations, other governments, and/or other funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow private-sector standards.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from non-operating items. Operating revenue and expenses generally result from providing services and producing and delivering products in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water fund also recognizes the portion of tap fees intended to recover current cost (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as non-operating revenue and expenses.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1st based on the taxable valuation of property located in the Village as of the preceding December 31st. Taxes are payable through August 31st, and at that time, all unpaid taxes are deemed delinquent and turned over to Ionia County. Ionia County remits payment to the Village of Lake Odessa on all delinquent property taxes.

Restricted Assets - The Village has restricted assets for roads. By restricting a portion of the net assets for a specific purpose, the Village has limited the use of the funds for that specific purpose only. The Village Council cannot change the amounts restricted and cannot spend the restricted funds for any other purpose than roads.

Capital Assets - Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,500 and an estimated useful life in excess of two year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

No interest expense has been incurred or capitalized on capital assets reported in proprietary funds.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

General Assets

Buildings and Improvements	30 to 50 years
Land Improvements	20 years
Equipment	5 to 15 years
Data Processing Equipment	5 years
Furniture	10 years

Infrastructure Assets

Road	8 to 30 years
Bridges	12 to 50 years
Sidewalks	10 to 30 years
Drains, Curbs, Gutters	8 to 40 years

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

Compensated Absences (Vacation and Sick Leave) - Village employees earn from 10-25 vacation days a year. The amount of vacation pay earned is determined according to the length of their employment. Vacation time not taken or paid in lieu of prior to March 1st each year or it is forfeited. Upon termination, all unearned and unused vacation pay is paid at current wage rates.

Sick leave benefits are earned by hourly employees at a rate of 1.85 hours per pay period of service worked. Upon voluntary termination, with eight years of service with the employer and upon submitting written notice at least two weeks prior to termination, the employee shall be paid for 50% of documented accrued sick leave, not to exceed 20 days, at the current wage rate. Employees that are involuntarily discharged are not eligible for payment of unused sick days. Salaried and hourly employees can carry forward 30 days for use in a subsequent year.

Long-Term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change. The Village does not have any reservations.

Designated Fund Balances - The Village has designated fund balances for equipment purchases. By designating a portion of fund balance for a specific purpose, the Village Council has established a policy that the amounts designated are to be used for a specific purpose. The Village Council can change the amounts so designated if they desire.

STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Budgets are adopted for general and special revenue funds, which are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. This basis is consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for all required governmental fund types. The village manager submits to the village council a proposed annual budget prior to February 28. A Public Hearing is conducted to obtain taxpayers' comments. The budget documents present information by fund, function, department and line items. The legal level of budgetary control adopted by the governing body is the department level.

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETED FUNDS

P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

During the year ended February 28, 2006, the Village incurred expenditures in certain budgeted funds, which were in excess of the amounts appropriated, as follows:

<u>FUND</u>	<u>BUDGET APPROPRIATION</u>	<u>ACTUAL EXPENDITURE</u>	<u>BUDGET VARIANCE</u>
General			
General Government:			
Building and Grounds	\$ 34,175	\$ 56,054	\$ 21,879
Public Safety:			
Planning and Zoning	\$ 12,000	\$ 13,163	\$ 1,163
Public Works:			
Garage and Maintenance	\$ 136,635	\$ 142,187	\$ 5,552
Major Streets			
Street Winter Maintenance	\$ 8,000	\$ 18,093	\$ 10,093
Local Streets			
Street Administration	\$ 3,500	\$ 3,892	\$ 392
Street Winter Maintenance	\$ 7,200	\$ 9,197	\$ 1,997

ENCUMBRANCE ACCOUNTING

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditures of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the Village of Lake Odessa.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

DEPOSITS AND INVESTMENTS

Michigan Compiled Laws Section 129.91, authorizes the Village to make deposits and invest in the accounts of federally insured banks, credit unions and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Village has designated four banks, one savings bank and one credit union for the deposit of the Village of Lake Odessa funds.

The Village's deposits and investments are in accordance with statutory authority.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

DEPOSITS AND INVESTMENTS (Continued)

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>GOVERNMENTAL ACTIVITIES</u>	<u>BUSINESS-TYPE ACTIVITIES</u>	<u>FIDUCIARY FUNDS</u>	<u>TOTAL PRIMARY GOVERNMENT</u>
Cash and Cash Equivalents	\$ 325,395	\$ (41,162)	\$ 568	\$ 284,801
Investments	204,008	210,318	-	414,326
Restricted Assets	<u>237,190</u>	<u>-</u>	<u>-</u>	<u>237,190</u>
Total	<u>\$ 766,593</u>	<u>\$ 169,156</u>	<u>\$ 568</u>	<u>\$ 936,317</u>

The breakdown between deposits and investments is as follows:

	<u>PRIMARY GOVERNMENT</u>
Bank Deposits	\$ 936,037
(Checking and Savings Accounts, Certificates of Deposit)	
Investment in Securities	-
(Mutual Funds and Similar Vehicles)	
Petty Cash and Cash on Hand	<u>280</u>
Total	<u>\$ 936,317</u>

At February 28, 2006, the Village had deposits with a carrying amount of \$936,037 and a bank balance of \$948,240. Of the bank balance, \$552,342 is covered by federal depository insurance, \$395,898 is uninsured and \$0 is collateralized.

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

CAPITAL ASSETS

Capital asset activity of the primary government for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental Activities				
Capital Assets not Being Depreciated				
Land	\$ -	\$ -	\$ -	\$ -
Subtotal	-	-	-	-
Capital Assets Being Depreciated				
Buildings	442,179	20,601	-	462,780
Land Improvements	-	15,400	-	15,400
Equipment	473,395	13,700	4,550	482,545
Data Processing Equipment	34,540	-	-	34,540
Infrastructure	-	192,755	-	192,755
Subtotal	950,114	242,456	4,550	1,188,020
Less Accumulated Depreciation for				
Buildings	379,869	5,888	-	385,757
Land Improvements	-	468	-	468
Equipment	307,143	25,793	4,550	328,386
Data Processing Equipment	34,540	-	-	34,540
Infrastructure	-	4,397	-	4,397
Subtotal	721,552	36,546	4,550	753,548
Net Capital Assets Being Depreciated	228,562	205,910	-	434,472
Governmental Activities Total				
Capital Assets-Net of Depreciation	\$ 228,562	\$ 205,910	\$ -	\$ 434,472

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

CAPITAL ASSETS (Continued)

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Business-Type Activities				
Capital Assets not Being Depreciated				
Land	\$ 2,150	\$ -	\$ -	\$ 2,150
Construction in Progress	<u>114,026</u>	<u>486,976</u>	<u>-</u>	<u>601,002</u>
Subtotal	<u>116,176</u>	<u>486,976</u>	<u>-</u>	<u>603,152</u>
Capital Assets Being Depreciated				
Buildings	1,597,698	-	-	1,597,698
Office Equipment	19,740	-	2,196	17,544
Equipment	<u>159,467</u>	<u>6,903</u>	<u>1,614</u>	<u>164,756</u>
Subtotal	<u>1,776,905</u>	<u>6,903</u>	<u>3,810</u>	<u>1,779,998</u>
Less Accumulated Depreciation for				
Buildings	466,297	32,018	-	498,315
Office Equipment	18,398	932	2,196	17,134
Equipment	<u>65,079</u>	<u>15,113</u>	<u>1,614</u>	<u>78,578</u>
Subtotal	<u>549,774</u>	<u>48,063</u>	<u>3,810</u>	<u>594,027</u>
Net Capital Assets Being Depreciated	<u>1,227,131</u>	<u>(41,160)</u>	<u>-</u>	<u>1,185,971</u>
Business-Type Activities Total Capital Assets-Net of Depreciation	<u>\$ 1,343,307</u>	<u>\$ 445,816</u>	<u>\$ -</u>	<u>\$ 1,789,123</u>

Depreciation expense was charged to programs of the Village as follows:

Governmental Activities	
General Government	\$ 4,824
Public Safety	7,991
Public Works	22,199
Recreation and Cultural	<u>1,532</u>
Total Government Activities	<u>\$ 36,546</u>
Business-Type Activities	
Water	<u>\$ 48,063</u>
Total Business-Type Activities	<u>\$ 48,063</u>

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances is as follows:

<u>FUND</u>	<u>INTERFUND RECEIVABLES</u>	<u>FUND</u>	<u>INTERFUND PAYABLES</u>
General	\$ 50,615	General	\$ 4,978
Local Streets	<u>4,978</u>	Major Street	5,861
		Road	465
		Water System	<u>44,289</u>
	<u>\$ 55,593</u>		<u>\$ 55,593</u>

<u>FUND</u>	<u>TRANSFERS IN</u>	<u>FUND</u>	<u>TRANSFERS OUT</u>
Local Streets	\$ <u>27,098</u>	Major Streets	\$ <u>27,098</u>
	<u>\$ 27,098</u>		<u>\$ 27,098</u>

Transfers were used to move revenues from the fund that is required to collect them to the fund where expenditures were expended.

LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties benefited from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

The following is a summary of the debt outstanding of the Village of Lake Odessa as of February 28, 2006:

	<u>INTEREST RATE</u>	<u>PRINCIPAL MATURES</u>	<u>BEGINNING BALANCE</u>	<u>ADDITION (REDUCTIONS)</u>	<u>ENDING BALANCE</u>	<u>DUE WITHIN ONE YEAR</u>
Primary Government						
Governmental Activities						
Other Liabilities						
Equipment Note Payable	4.000%	2010	\$ 60,042	\$ (12,030)	\$ 48,012	\$ 12,423
Compensated Absences			<u>-</u>	<u>10,614</u>	<u>10,614</u>	<u>10,614</u>
Total Governmental Activities			<u>\$ 60,042</u>	<u>\$ (1,416)</u>	<u>\$ 58,626</u>	<u>\$ 23,037</u>
Proprietary Activities						
Water Fund						
Water System Imp Bonds	6.125%-9.50%	2008	\$ 195,000	\$ (60,000)	\$ 135,000	\$ 65,000
Equipment Note Payable	4.000%	2010	<u>60,042</u>	<u>(12,030)</u>	<u>48,012</u>	<u>12,423</u>
Total Business-Type Activities			<u>\$ 255,042</u>	<u>\$ (72,030)</u>	<u>\$ 183,012</u>	<u>\$ 77,423</u>

VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006

LONG-TERM DEBT (Continued)

The compensated absence liability attributable to the governmental activities will be liquidated by the Village's governmental funds. The annual requirements to pay principal and interest on long-term bonds outstanding for the primary government are as follows:

<u>Year End February 28</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2007	\$ 12,423	\$ 724	\$ 77,423	\$ 7,866
2008	12,934	1,213	82,934	6,990
2009	13,475	672	13,475	672
2010	9,270	147	9,270	147
2011	-	-	-	-
Total	<u>\$ 48,102</u>	<u>\$ 2,756</u>	<u>\$ 183,102</u>	<u>\$ 15,675</u>

RETIREMENT SYSTEM

The Village has a defined contribution pension plan covering substantially all of its general employees. The total pension payments for the year ended February 28, 2006 were \$23,530. Monies are invested in individual annuities in the names of the individuals.

Deferred Compensation Plan - The Village offers its employees a deferred compensation plan created in accordance with the Internal Revenue Code, Section 401(K). the plan, which is available to all Village employees, permits them to defer a portion on their current salary until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to such amounts, property and/or rights (until made available to the employee or other beneficiary), are solely the property and rights of the Village (without being restricted to the provision of benefits under the plan), subject only to the claims of the Village's general creditors.

Employee's rights created under the plan are equivalent to those of general creditors of the Village and only in an amount equal to their fair market value on the deferred account maintained with respect to each employee.

In the past, the plan assets have been used for no purpose other than to pay benefits and administrative costs. In addition, the Village believes it is unlikely that it will use the assets to satisfy the claims of general creditors in the future.

Summary of the activity in the plan for the year ended February 28, 2006 is as follows:

Balance February 29, 2005	\$ 537,470
Contributions-Employer	23,530
Contributions-Employee	36,428
Net Investment Earnings (Losses)	75,785
Loan Payments	13,848
Change in Outstanding Loan Balance	(688)
Administrative Fees	(814)
New Loans Issured	(9,500)
Balance February 28, 2006	<u>\$ 676,059</u>

**VILLAGE OF LAKE ODESSA
NOTES TO FINANCIAL STATEMENTS
For the Year Ended February 28, 2006**

RISK MANAGEMENT

The Village is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Village manages its risk exposure and provides certain employee benefits thorough a combination of risk management pools and commercial insurance.

The Village participates in the Michigan Municipal League for general and automobile liability, motor vehicle physical damage, property damage, and workers compensation coverages. The Michigan Municipal Liability and Property Pool were established pursuant to laws of the State of Michigan which authorizes local units of government to jointly exercise any power, privilege or authority which each might exercise separately. The purpose of the pool is to jointly exercise powers common to each participating member to establish and administer a risk management program; to prevent or lessen the incidence and severity of casualty losses occurring in the operation of its members; and to defend and protect any member of the authority against liability or loss.

The Michigan Municipal Liability and Property Pool, while it operates under the Michigan Legislation of Public Act 138, does not operate as a risk pool due to a total transfer of risk to reinsurance companies backing the Michigan Municipal Liability and Property Pool. Due to this reinsurance purchase, there is no pooling of risk between members.

The Michigan Municipal Liability and Property Pool chose to adopt the forms and endorsements of conventional insurance protection and to reinsure these coverages 100%, rather than utilize a risk pool of member funds to pay individual and collective losses up to a given retention, and then have reinsurance above that retention amount.

The individual members are responsible for their self-retention amounts (deductibles) that vary from member to member.

The Village also provides employee benefits through the Michigan Municipal League with programs underwritten by commercial insurance carriers.

At February 28, 2006, there were no claims, which exceeded insurance coverage. The Village had no significant reduction in insurance coverage from previous years.

PRIOR PERIOD ADJUSTMENT

A certain error, resulting in the understatement of fund balance in the prior year, was corrected during the February 28, 2006 audit. The cumulative effect on fund balance from this error is as follows:

	<u>GENERAL FUND</u>
Fund Balance at March 1, 2005, as previously reported	\$ 441,416
February 28, 2005 Receivable not recorded	<u>31,936</u>
Fund Balance at February 28, 2005, as restated	<u>\$ 473,352</u>
Net Assets at March 1, 2005, as previously reported	\$ 979,103
February 28, 2005 Receivable not recorded	<u>31,936</u>
Net Assets at February 28, 2005, as restated	<u>\$ 1,011,039</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
For the Year Ended February 28, 2006

	ORIGINAL BUDGET	AMENDED BUDGET	ACTUAL	VARIANCE WITH AMENDED BUDGET
Beginning of Year Fund Balance	\$ 473,352	\$ 473,352	\$ 473,352	\$ -
Resources (Inflows)				
Taxes and Penalties	422,200	422,200	443,084	20,884
Licenses and Permits	8,400	8,400	9,831	1,431
State Grants	251,965	251,965	246,522	(5,443)
Fines and Forfeitures	2,550	2,550	2,156	(394)
Interest and Rentals	6,500	6,500	6,964	464
Other Revenue	<u>43,300</u>	<u>43,300</u>	<u>42,929</u>	<u>(371)</u>
Total Resources	<u>734,915</u>	<u>734,915</u>	<u>751,486</u>	<u>16,571</u>
Charges to Appropriations (Outflows)				
Governing Body	29,950	29,950	28,615	1,335
General Government	60,375	60,375	57,588	2,787
Manager	36,738	36,738	32,860	3,878
Finance Director	36,000	36,000	34,269	1,731
Buildings and Grounds	33,175	33,175	35,453	(2,278)
Public Safety				
Police	306,400	306,400	272,459	33,941
Fire	64,000	64,000	30,073	33,927
Planning and Zoning	12,000	12,000	13,163	(1,163)
Public Works				
Street Lighting	32,900	32,900	22,997	9,903
Garage and Maintenance	134,885	134,885	131,197	3,688
Less: Reimbursement from Other Funds	(95,000)	(95,000)	(97,700)	2,700
Recreational and Cultural				
Parks	48,400	48,400	46,762	1,638
Library	3,000	3,000	3,000	-
Other	18,450	18,450	3,018	15,432
Debt Service	14,800	14,800	14,247	553
Capital Outlay	<u>12,000</u>	<u>12,000</u>	<u>49,701</u>	<u>(37,701)</u>
Total Charges to Appropriations	<u>748,073</u>	<u>748,073</u>	<u>677,702</u>	<u>70,371</u>
Excess of Resources Over (Under) Appropriations	<u>(13,158)</u>	<u>(13,158)</u>	<u>73,784</u>	<u>86,942</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ 460,194</u>	<u>\$ 460,194</u>	<u>\$ 547,136</u>	<u>\$ 86,942</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - MAJOR STREET FUND
For the Year Ended February 28, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 116,257	\$ 116,257	\$ 116,257	\$ -
Resources (Inflows)				
State Grants	105,000	105,000	117,661	12,661
Interest and Rentals	<u>3,500</u>	<u>3,500</u>	<u>2,881</u>	<u>(619)</u>
Total Resources	<u>108,500</u>	<u>108,500</u>	<u>120,542</u>	<u>12,042</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	13,000	13,000	12,976	24
Street Routine Maintenance	78,850	78,850	34,219	44,631
Street Winter Maintenance	8,000	8,000	18,093	(10,093)
Street Construction	<u>62,000</u>	<u>62,000</u>	<u>26,944</u>	<u>35,056</u>
Total Charges to Appropriations	<u>161,850</u>	<u>161,850</u>	<u>92,232</u>	<u>69,618</u>
Excess of Resources Over (Under) Appropriations	<u>(53,350)</u>	<u>(53,350)</u>	<u>28,310</u>	<u>81,660</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	-	-	-
Operating Transfers (Out)	<u>(28,000)</u>	<u>(28,000)</u>	<u>(27,098)</u>	<u>902</u>
Total Other Financing Sources (Uses)	<u>(28,000)</u>	<u>(28,000)</u>	<u>(27,098)</u>	<u>902</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ 34,907</u>	<u>\$ 34,907</u>	<u>\$ 117,469</u>	<u>\$ 82,562</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - LOCAL STREET FUND
For the Year Ended February 28, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 51,966	\$ 51,966	\$ 51,966	\$ -
Resources (Inflows)				
State Grants	32,000	32,000	39,713	7,713
Interest and Rentals	500	500	475	(25)
Other Revenue	<u>-</u>	<u>-</u>	<u>104</u>	<u>104</u>
Total Resources	<u>32,500</u>	<u>32,500</u>	<u>40,292</u>	<u>7,792</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	3,500	3,500	3,892	(392)
Street Routine Maintenance	56,450	56,450	53,089	3,361
Street Winter Maintenance	7,200	7,200	9,197	(1,997)
Street Construction	<u>40,000</u>	<u>40,000</u>	<u>25,381</u>	<u>14,619</u>
Total Charges to Appropriations	<u>107,150</u>	<u>107,150</u>	<u>91,559</u>	<u>15,591</u>
Excess of Resources Over (Under) Appropriations	<u>(74,650)</u>	<u>(74,650)</u>	<u>(51,267)</u>	<u>23,383</u>
Other Financing Sources (Uses)				
Operating Transfers In	28,000	28,000	27,098	(902)
Operating Transfers (Out)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>28,000</u>	<u>28,000</u>	<u>27,098</u>	<u>(902)</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ 5,316</u>	<u>\$ 5,316</u>	<u>\$ 27,797</u>	<u>\$ 22,481</u>

VILLAGE OF LAKE ODESSA
BUDGETARY COMPARISON SCHEDULE - ROAD FUND
For the Year Ended February 28, 2006

	<u>ORIGINAL BUDGET</u>	<u>AMENDED BUDGET</u>	<u>ACTUAL</u>	<u>VARIANCE WITH AMENDED BUDGET</u>
Beginning of Year Fund Balance	\$ 200,947	\$ 200,947	\$ 200,947	\$ -
Resources (Inflows)				
Taxes and Penalties	184,800	184,800	196,894	12,094
Federal Grants	375,000	375,000	-	(375,000)
Interest and Rentals	2,000	2,000	6,264	4,264
Other	<u>45,000</u>	<u>45,000</u>	<u>2,640</u>	<u>(42,360)</u>
Total Resources	<u>606,800</u>	<u>606,800</u>	<u>205,798</u>	<u>(401,002)</u>
Charges to Appropriations (Outflows)				
Public Works				
Street Administration	18,800	18,800	16,509	2,291
Street Construction	568,000	568,000	140,430	427,570
Sidewalk Replacement	<u>20,000</u>	<u>20,000</u>	<u>4,880</u>	<u>15,120</u>
Total Charges to Appropriations	<u>606,800</u>	<u>606,800</u>	<u>161,819</u>	<u>444,981</u>
Excess of Resources Over (Under) Appropriations	<u>-</u>	<u>-</u>	<u>43,979</u>	<u>43,979</u>
Budgetary Fund Balance - February 28, 2006	<u>\$ 200,947</u>	<u>\$ 200,947</u>	<u>\$ 244,926</u>	<u>\$ 43,979</u>

VILLAGE OF LAKE ODESSA
COMBINING BALANCE SHEET - SPECIAL REVENUE FUNDS
For the Year Ended February 28, 2006

ASSETS	MAJOR STREETS	LOCAL STREETS	ROAD	TOTAL
Cash and Cash Equivalents	\$ 18,765	\$ 15,654	\$ 66,468	\$ 100,887
Investments	83,327	-	170,722	254,049
Receivables				
Taxes	-	-	8,201	8,201
Due From State	21,238	7,165	-	28,403
Due From Other Funds	-	4,978	-	4,978
Total Assets	<u>\$ 123,330</u>	<u>\$ 27,797</u>	<u>\$ 245,391</u>	<u>\$ 396,518</u>
LIABILITIES AND FUND EQUITY				
Liabilities				
Due to Other Funds	\$ 5,861	\$ -	\$ 465	\$ 6,326
Total Liabilities	<u>5,861</u>	<u>-</u>	<u>465</u>	<u>6,326</u>
Fund Equity				
Fund Balance				
Unreserved - Undesignated	<u>117,469</u>	<u>27,797</u>	<u>244,926</u>	<u>390,192</u>
Total Fund Equity	<u>117,469</u>	<u>27,797</u>	<u>244,926</u>	<u>390,192</u>
Total Liabilities and Fund Equity	<u>\$ 123,330</u>	<u>\$ 27,797</u>	<u>\$ 245,391</u>	<u>\$ 396,518</u>

VILLAGE OF LAKE ODESSA
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - SPECIAL REVENUE FUNDS
February 28, 2006

	<u>MAJOR STREETS</u>	<u>LOCAL STREETS</u>	<u>ROAD</u>	<u>TOTAL</u>
Revenues				
Taxes and Penalties	\$ -	\$ -	\$ 196,894	\$ 196,894
State Grants	117,661	39,713	-	157,374
Interest and Rentals	2,881	475	6,264	9,620
Other Revenue	<u>-</u>	<u>104</u>	<u>2,640</u>	<u>2,744</u>
Total Revenues	<u>120,542</u>	<u>40,292</u>	<u>205,798</u>	<u>366,632</u>
Expenditures				
Current				
Public Works				
Administration	12,976	3,892	16,509	33,377
Street Routine Maintenance	34,219	53,089	-	87,308
Street Winter Maintenance	18,093	9,197	-	27,290
Street Construction	26,944	25,381	140,430	192,755
Sidewalk Replacement	<u>-</u>	<u>-</u>	<u>4,880</u>	<u>4,880</u>
Total Expenditures	<u>92,232</u>	<u>91,559</u>	<u>161,819</u>	<u>345,610</u>
Excess of Revenues Over (Under)				
Expenditures	<u>28,310</u>	<u>(51,267)</u>	<u>43,979</u>	<u>21,022</u>
Other Financing Sources (Uses)				
Operating Transfers In	-	27,098	-	27,098
Operating Transfers (Out)	<u>(27,098)</u>	<u>-</u>	<u>-</u>	<u>(27,098)</u>
Total Other Financing Sources (Uses)	<u>(27,098)</u>	<u>27,098</u>	<u>-</u>	<u>-</u>
Excess of Revenues and Other Sources Over				
(Under) Expenditures and Other Uses	1,212	(24,169)	43,979	21,022
Fund Balance-March 1, 2005	<u>116,257</u>	<u>51,966</u>	<u>200,947</u>	<u>369,170</u>
Fund Balance-February 28, 2006	<u>\$ 117,469</u>	<u>\$ 27,797</u>	<u>\$ 244,926</u>	<u>\$ 390,192</u>



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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Village Council
Village of Lake Odessa
Ionia County, Michigan

We have audited the financial statements of the Village of Lake Odessa as of and for the year ended February 28, 2006, and have issued our report thereon dated July 20, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village of Lake Odessa's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Lake Odessa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the Village Council and management. However, this report is a matter of public record and its distribution is not limited.

Hastings, MI
July 20, 2006

Walker, Fluke & Sheldon, P.C.